

## Financial News for Independent Energy Companies, Second Quarter 2008

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### Overview

Second Quarter 2008 Key Findings	
<b>Net Income</b>	\$5.5 billion
<b>Revenues</b>	\$44.0 billion
<b>Highlights</b>	Independent energy companies reported a 6-percent increase in net income relative to the second quarter of 2007, as earnings for producers and oil field service companies increased by more than the decline in refiners' net income.
	Higher earnings for producers and oil field service companies were driven by higher oil and natural gas prices and increased rig activity, while refiners' earnings were influenced by much lower margins.

Earnings for the 37 independent energy companies included in this report grew 6 percent in the second quarter of 2008 (Q208) over earnings in the second quarter of 2007 (Q207) (Table 1). This was driven by the performance of the producers and the oil field service companies; in contrast, refiner/marketers had large declines in earnings over the year-ago quarter. Oil field company second quarter earnings have increased each year for at least the last six years, with the average for the 2006-2008 period over ten times higher than the average for 2002-2004.

**Table 1. Revenue and Net Income Summaries for Independent Energy Companies**  
(Million Dollars)

Companies	Q207	Q208	Percent Change	2007	2008	Percent Change
<b>Revenue</b>						
Oil and Gas Producers (14) <sup>a</sup>	2,146	3,220	50.1	3,958	5,934	49.9
Oil Field Companies (19)	21,945	26,795	22.1	43,010	51,003	18.6
Refiners (4)	8,471	13,990	65.2	14,486	24,695	70.5
<b>Total Revenue (37)</b>	<b>32,562</b>	<b>44,005</b>	<b>35.1</b>	<b>61,454</b>	<b>81,632</b>	<b>32.8</b>
<b>Net Income</b>						
Oil and Gas Producers (14)	373	591	58.6	578	1,127	95.0
Oil Field Companies (19)	4,152	4,782	15.2	7,876	9,147	16.1
Refiners (4)	682	156	-77.1	922	181	-80.4
<b>Total Income (37)</b>	<b>5,206</b>	<b>5,529</b>	<b>6.2</b>	<b>9,376</b>	<b>10,455</b>	<b>11.5</b>

<sup>a</sup>The number of companies reporting revenue and net income is in parentheses.

Notes: The net income data have been adjusted to exclude the effects of unusual items such as accounting changes. Percentages are calculated from unrounded data.

Sources: Compiled from companies' quarterly reports to stockholders.

## Energy Price News

**The crude oil price for Q208 increased 86 percent relative to a year earlier while the price of natural gas increased 43 percent.** The imported average crude oil price increased from \$62.30 per barrel in Q207 to \$115.63 per barrel in Q208 ([Table 2](#)). (See the [current](#) and [recent](#) issues of the *Short-Term Energy Outlook* for explanation of these price changes and those discussed below.) This is the twenty-second time in the past twenty-four quarters (i.e., five and three-quarters years) that the price of crude oil was higher relative to the year-earlier quarter. (The first and second quarters of 2007 were the only exceptions since the second quarter of 2002.)

The average U.S. natural gas wellhead price increased from \$6.89 per thousand cubic feet (mcf) in Q207 to \$9.86 per mcf in Q208 ([Table 2](#)). Natural gas prices have generally fluctuated over the past two years, increasing five times relative to the year-earlier quarter and decreasing four times since the first quarter of 2006.

The gross refining margin (the per-barrel composite wholesale product price less the composite refiner acquisition cost of crude oil) was 57 percent lower in Q208 than in Q207 ([Table 2](#)). A large increase in the average price for petroleum products (from \$91.77 per barrel to \$128.29 per barrel) was exceeded by an even larger \$53.33 per barrel increase in the price of crude oil resulting in a much lower margin.

	Q207	Q208	Percent Change
<b>U.S. Energy Prices<sup>a</sup></b>			
Imported Average Crude Oil Price (\$/barrel)	62.30	115.63	85.6
Natural Gas Wellhead Price (\$/thousand cubic feet)	6.89	9.86	43.1
<b>U.S. Gross Refining Margin (\$/barrel)<sup>b</sup></b>	29.47	12.66	-57.0

<sup>a</sup> Energy Information Administration, Short-Term Energy Outlook, (August 12, 2008), Table 2.  
<sup>b</sup> Compiled from data in Energy Information Administration, Petroleum Marketing Monthly, DOE/EIA-380 (Washington, DC), Table 1, Table 4 and Table 5; and Energy Information Administration, Monthly Energy Review, DOE/EIA-0035, (Washington, DC) Table 3.2.  
 Note: The U.S. Gross Refining Margin is the difference between the composite wholesale product price and the composite refiner acquisition cost of crude oil.

## Independent Energy Company Earnings

**Independent producers' earnings increased 59 percent from Q207 to Q208 due to higher oil and natural gas prices.** Net income of the independent oil and gas producers included in this report increased 59 percent between Q207 and Q208, while revenues increased 50 percent (Table 1). The 86-percent jump in oil prices, combined with the 43-percent rise in natural gas prices ([Table 2](#)), led to the sharp increase in profits.

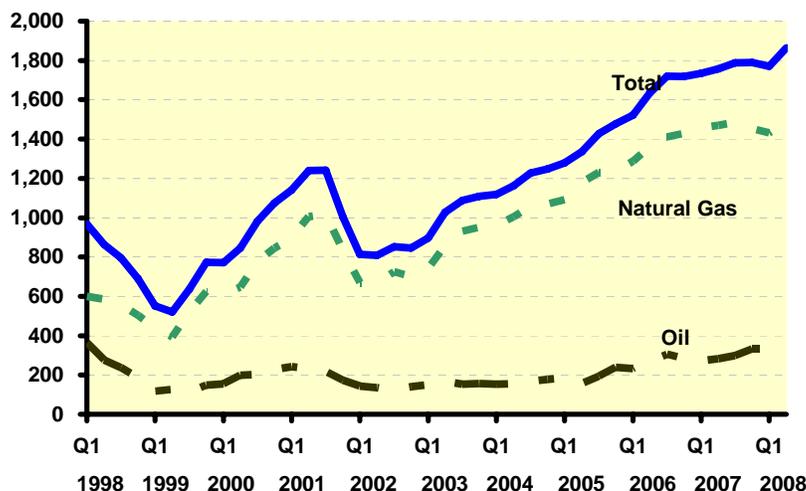
**Oil field companies' revenue and earnings increased 15 percent from Q207 to Q208 due to higher rig counts.** Net income of U.S. oil field companies included in this report increased 15 percent, as revenues rose 22 percent (see Table 1). U.S. oil field company earnings were strengthened by an increase in the U.S. rig count of 6 percent from 1,757 in Q207 to 1,864 in Q208, according to [Baker Hughes](#) data, which covers all oil field companies, not just those covered in this report. Higher rig counts and the resulting higher demand for rig services directly increased the demand for the equipment and services supplied by oil field companies.

Breaking down the overall (oil plus natural gas) U.S. rig count into its components, the oil rig count grew 31 percent while the natural gas rig count grew 1 percent over the period (see Figure 1).

The worldwide rig count increased 8 percent over the year-ago quarter. While overall rig counts grew 6 percent in the United States from Q207 to Q208, they jumped 21 percent in Canada and grew 8 percent in the rest of the world.

**Refiner earnings dropped 77 percent from Q207 to Q208 due to lower margins.** After a more than doubling of second quarter earnings in 2007 relative to the year-ago quarter, earnings of the independent refiners included in this report dropped 77 percent, from \$682 million in Q207 to \$156 million in Q208 (see Table 1). This was due to a decrease in refining margins of 57 percent over the year-ago quarter (see Table 2). (The gross refining margin is the difference between the composite wholesale refined petroleum product price and the composite refiner acquisition cost of crude oil.) Refiners' second quarter earnings had steadily increased from 2005 through 2007; Q208 earnings were 8 percent higher than those reported in Q204.

Figure 1: U.S. Quarterly Rig Counts: Oil, Gas & Total, 1998-2008



### About this Report

The "Financial News for Independent Energy Companies" is issued several weeks after the close of each quarter to report recent trends in the financial performance of independent energy companies, which are typically smaller than the majors and do not have integrated production/refining operations. The information is compiled from companies' quarterly reports and press releases.

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